



THE EVOLUTION OF CHINA'S
PRIVATE WEALTH MARKET

BAIN & COMPANY 

Jennifer Zeng, Alfred Shang and Sameer Chishti are partners with Bain & Company.

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Executive summary

China is now home to one million high-net-worth individuals (HNWIs)—twice as many as in 2010. This is a key finding of the *2015 China Private Wealth Report*, jointly published by Bain & Company and China Merchants Bank (CMB). We surveyed approximately 2,800 Chinese HNWIs (those with individual investable assets in excess of RMB 10 million, or approximately US \$1.6 million). We conducted our first survey in 2009 and have conducted three follow-ups since then. Our latest survey found that the country's total private wealth market grew by 16% annually between 2012 and 2014, reaching RMB 112 trillion in 2014. This market should reach RMB 129 trillion in 2015.

The HNWI population is expanding throughout China. While only the seven provinces of Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong and Sichuan claim more than 50,000 HNWIs, the numbers are increasing rapidly in provinces like Xinjiang, Hubei and Shaanxi, where the number of HNWIs rose by 25% to 35% annually between 2012 and 2014, contributing to a more balanced geographic distribution of wealth.

In addition to determining the size and growth trajectory for China's HNWI population and private wealth market, the survey produced insights into how these individuals gained wealth, where they live, how their priorities are changing and how they invest today. For example, the growth of innovative industries such as IT, biotechnology and alternative energy led to the creation of a newly rich, a segment of HNWIs who are younger and adopt a more aggressive and open investment style than their more established counterparts among the wealthy. Fully 80% of the newly rich are under 50 years of age and add diversity to the HNWI population, which now includes both entrepreneurs who opened factories decades ago and younger professionals in the technology sector and other emerging industries.

Unlike more established wealthy individuals, the newly rich prioritize wealth creation over wealth inheritance. Their presence and success is changing how wealthy Chinese invest outside of the capital markets. According to Bain's research, China's HNWIs are adjusting their investment strategies based on domestic reforms. More than one-third of HNWIs surveyed said that they expect to increase their investment in innovative industries such as IT, biotechnology and alternative energy. In addition, less than 10% of HNWIs expect to increase their investment in more traditional manufacturing industries.

Wealth preservation remains the top wealth management objective, followed by wealth inheritance planning, which surged from the fifth priority in 2013 to the second in our 2015 survey. It shares its ranking among ultra-HNWIs (those with investable assets in excess of RMB 100 million).

HNWIs' interest in overseas investment continues to increase. Nearly 40% of HNWIs and almost 60% of ultra-HNWIs indicated that they have overseas investments—a sizable jump from 20% and more than 30%, respectively, in 2011. About half of the HNWIs said they plan to boost their overseas investments in the next year or two, attracted by the more diverse cross-border investment opportunities.

HNWIs are entrusting a larger share of wallet—or a percentage of their investable assets—to private banks or other high-end wealth management institutions. In 2015, HNWIs put 65% of their investable assets in the hands of private banks or other high-end wealth management institutions, a significant increase from 25%, on average, in 2009.

As China's private wealth market grows and changes, all wealth management institutions are discovering the importance of adapting to their customers' shifting needs and preferences. This includes continually improving customer relationships and actively exploring innovative service models. Chinese private banks remain the first choice for HNWI onshore wealth management requirements. Now, many are investing heavily to expand their overseas service platforms and capabilities in order to capture the growing market for overseas investments.

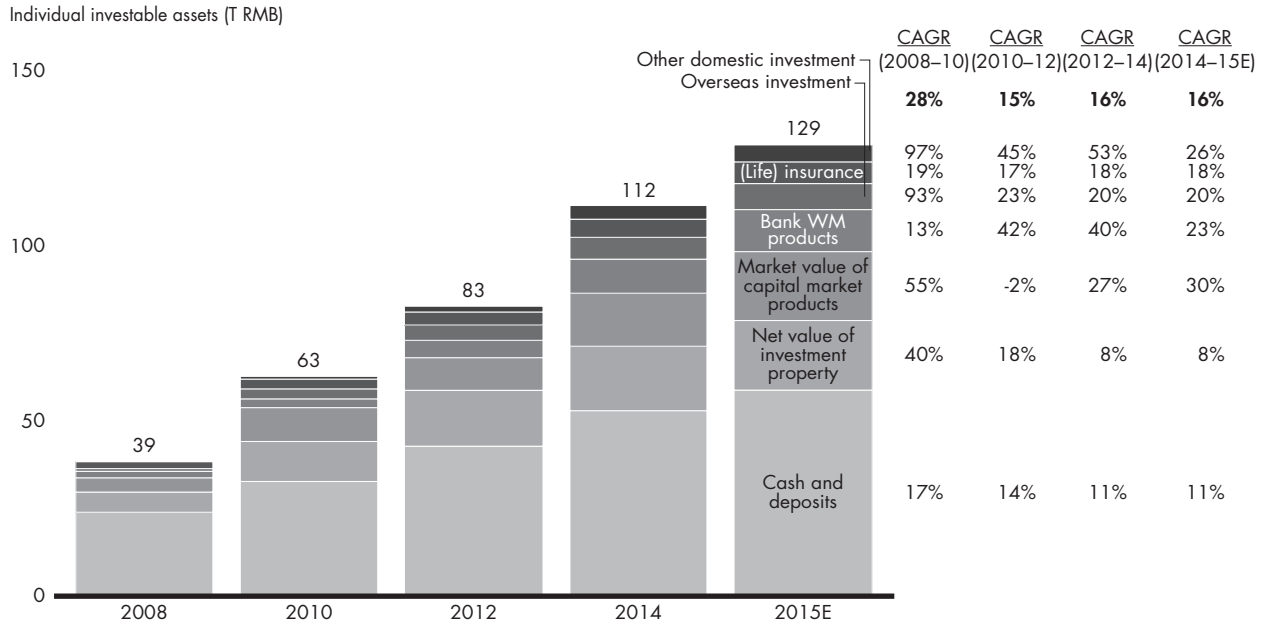


1.

China's private wealth market

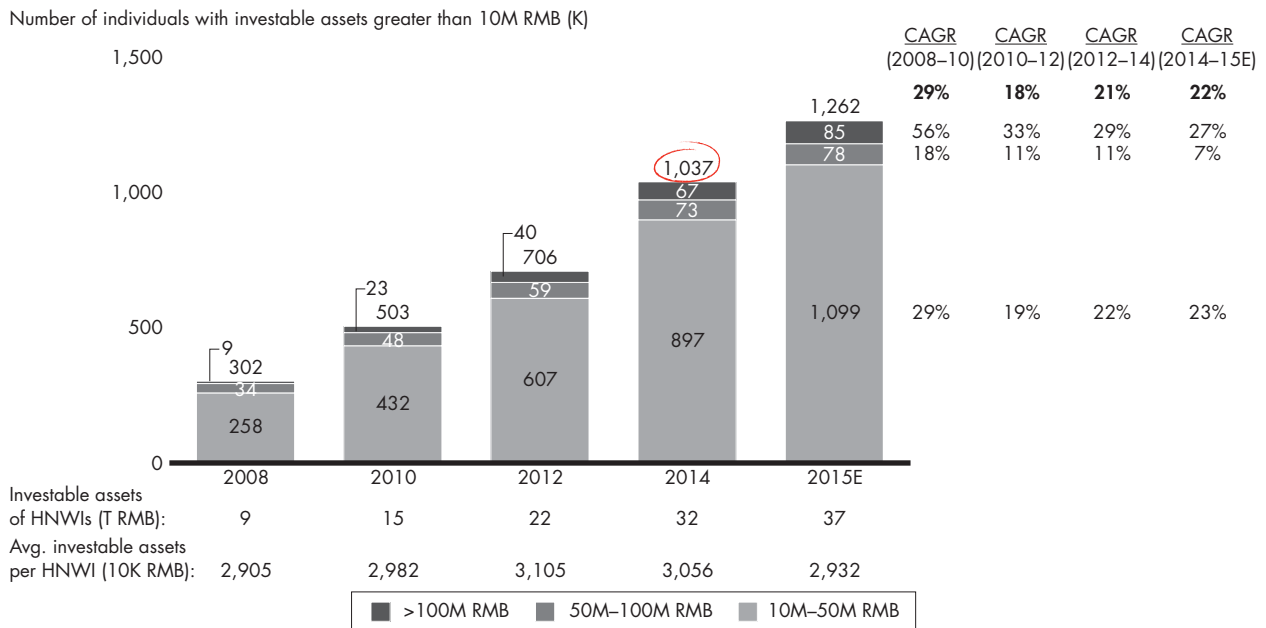
- China's private wealth market surpassed the RMB 100 trillion mark in 2014, reaching RMB 112 trillion. The market grew at an annual rate of 16% from 2012 to 2014, at par with 2010–2012, and we expect it to continue to grow approximately 16%, reaching an estimated RMB 129 trillion in 2015.
- China's high-net-worth individuals (HNWI) population exceeded one million in 2014. The population of HNWIs increased at a healthy pace between 2012 and 2014, with a compounded annual rate of 21%. Investable assets owned by Chinese HNWIs reached RMB 32 trillion by the end of 2014.
- There are seven provinces in China with more than 50,000 HNWIs: Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong and Sichuan.
- Guangdong is the first province to have more than 100,000 HNWIs, and Sichuan is the first inland province to have more than 50,000 HNWIs. Provinces in Central and Western China had the greatest increase in the HNWI population in 2012 to 2014, contributing to a more balanced geographic distribution of wealth.
- We expect continued significant growth potential for wealth in Central and Western China given the "One Belt, One Road" initiative and the Yangtze River economic belt policies.

Figure 1: The wealth market achieved steady growth; total investable assets exceeded RMB 100T, reaching RMB 112T in 2014



Note: Historic data of bank wealth management (WM) products and other domestic investment is adjusted based on latest official data
 Sources: National Bureau of Statistics of China; The People's Bank of China; Shanghai Stock Exchange; Shenzhen Stock Exchange; CBRC Shanghai Office; Bain analysis

Figure 2: China's HNWI population exceeded one million in 2014



Investable assets of HNWIs (T RMB):	9	15	22	32	37
Avg. investable assets per HNWI (10K RMB):	2,905	2,982	3,105	3,056	2,932

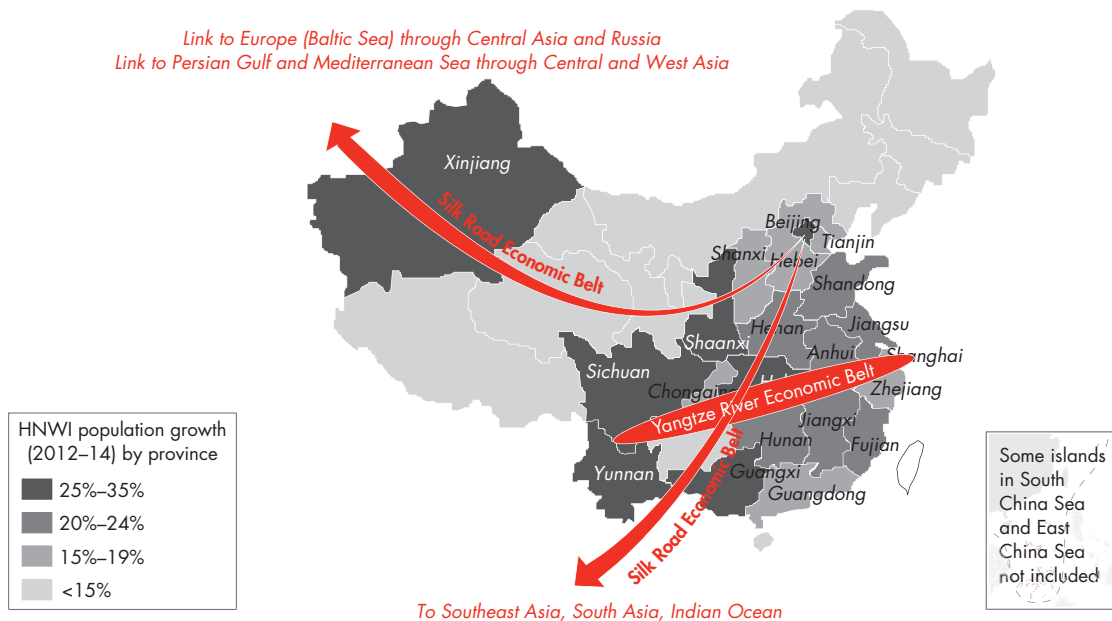
Sources: National Bureau of Statistics of China; The People's Bank of China; Shanghai Stock Exchange; Shenzhen Stock Exchange; CBRC Shanghai Office; UK HMRC; US IRS; Japan NTA; Korea NTS; Federal Reserve; Bank of Korea; Bank of Japan; World Bank; Bain analysis

Figure 3: Seven provinces have more than 50,000 HNWI's; the regional wealth gaps are shrinking



Sources: National Bureau of Statistics of China; The People's Bank of China; Shanghai Stock Exchange; Shenzhen Stock Exchange; CBRC Shanghai Office; UK HMRC; US IRS; Japan NTA; Korea NTS; Federal Reserve; Bank of Korea; Bank of Japan; World Bank; Bain analysis

Figure 4: Provinces with biggest increase in the HNWI population from 2012 to 2014 are clustered in Central and Western China



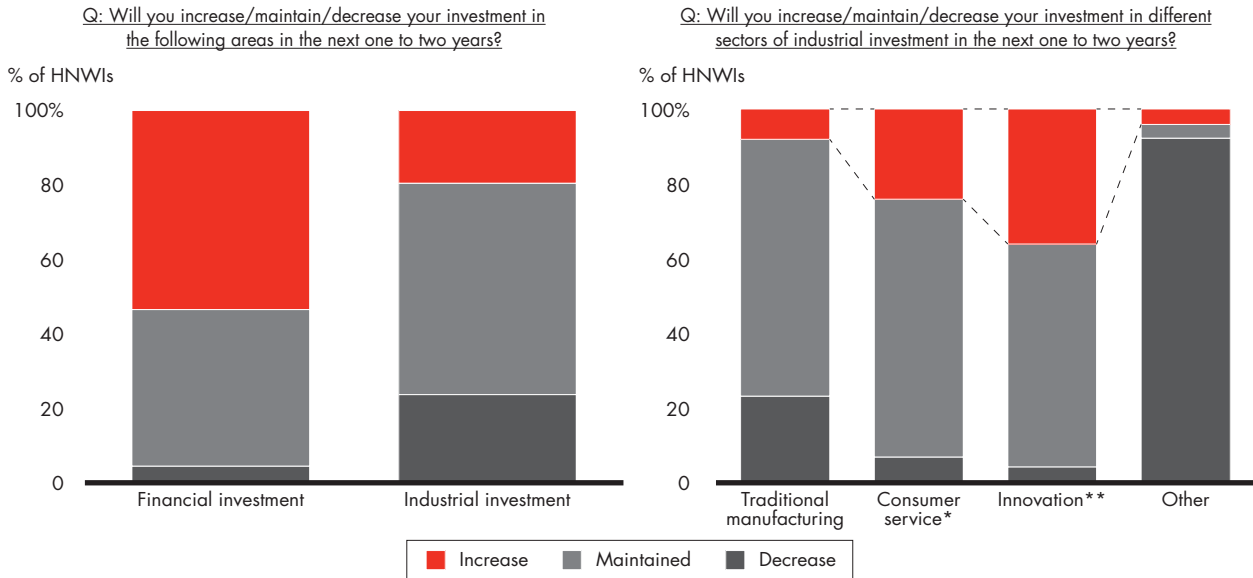
Sources: National Bureau of Statistics of China; The People's Bank of China; Shanghai Stock Exchange; Shenzhen Stock Exchange; CBRC Shanghai Office; UK HMRC; US IRS; Japan NTA; Korea NTS; Federal Reserve; Bank of Korea; Bank of Japan; World Bank; Bain analysis

2.

Investment mindset and behaviors

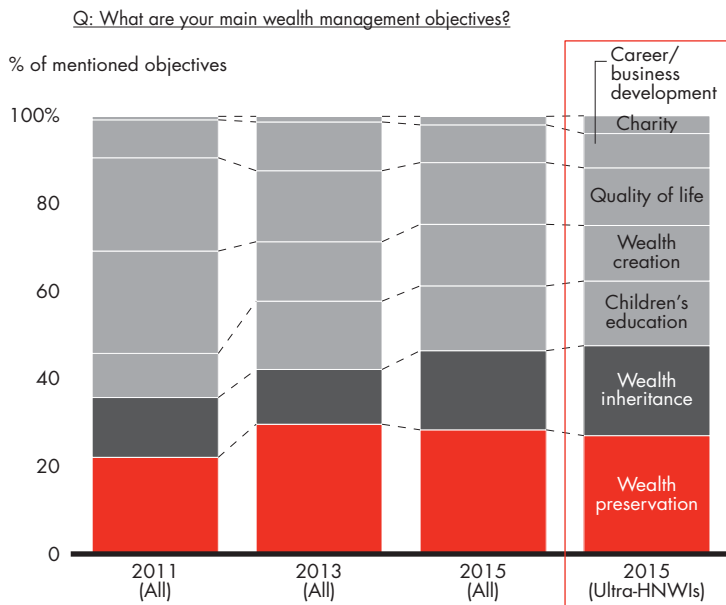
- HNWIs' investment approach continues to evolve, and investors are becoming more optimistic about investments in innovative industries.
- As China's macroeconomic growth enters a "new normal," the country's HNWIs are paying increasing attention to government policies regarding domestic reforms, market openings and innovation.
- Chinese HNWIs have varying opinions regarding the industries in which they choose to invest. Many feel optimistic about investment in innovative industries but cautious about investment in traditional manufacturing industries.
- Wealth preservation remains the top wealth management objective, followed by wealth inheritance, which surged from the fifth priority in 2013 to the second priority in our 2015 survey—sharing its present ranking among ultra-HNWIs, too.
- Besides financial wealth, HNWIs want to pass on such family values as receiving a good education and working hard.
- In addition to spreading risk and diversifying assets, HNWIs are starting to actively seek returns on overseas investments, with Hong Kong and the US topping the list.
- HNWIs still prefer personalized and private relationship management and advisor services in offline channels; however, they are increasingly using online channels (especially mobile Internet) for investment information and banking services.
- The development of innovative industries such as IT, biotechnology and alternative energy has led to the emergence of the newly rich HNWI segment, a group with a more aggressive and open investment style.

Figure 5: HNWI's have varying opinions about industry investments, but they're more optimistic about investing in innovative industries



*Consumer service includes industries such as entertainment, medical, etc.
 **Innovation includes industries such as IT/Internet, biopharmacy, alternative energy, etc.
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB regional account manager (RM) interviews; CMB partner regional account manager interviews; interviews with high-end wealth management relationship managers of other financial institutions; Bain analysis

Figure 6: Wealth preservation is still HNWI's top wealth management objective while wealth inheritance rose to second place

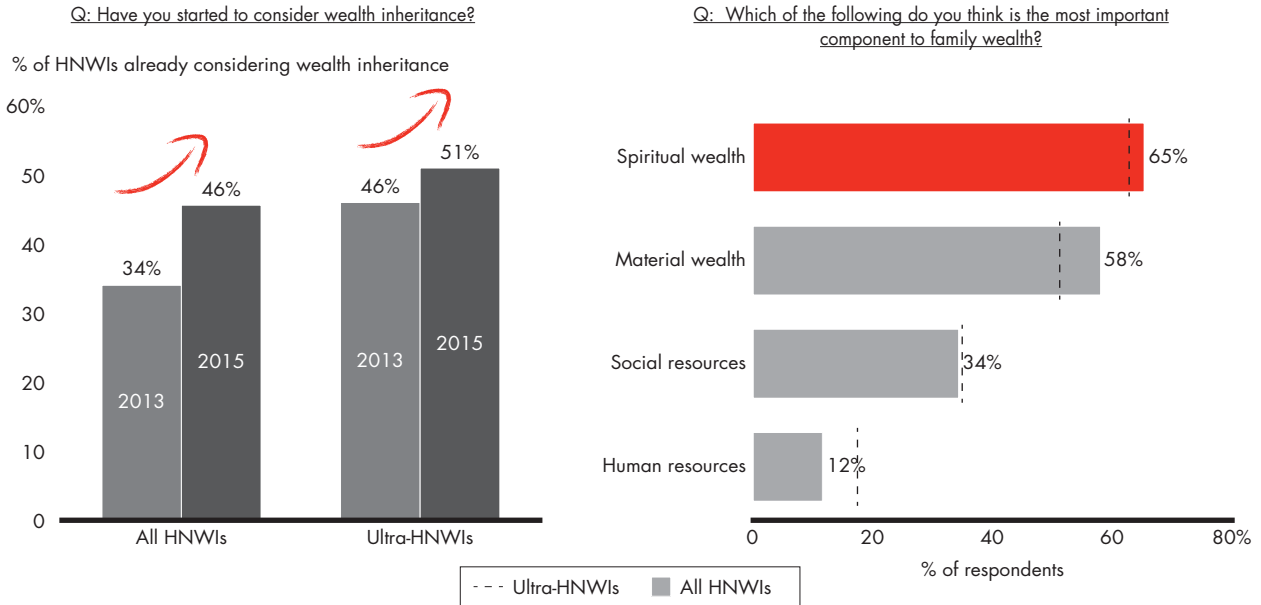


Wealth preservation remains the top priority; inheritance gains significance

- HNWI's top wealth management objective is the same as two years ago: "wealth preservation: realize stable wealth growth"
- **Importance of wealth inheritance has increased**
 - Along with wealth accumulation and the growing needs of a family wealth plan, HNWI's have started considering an effective way of passing wealth to their heirs
 - For ultra-HNWIs, the importance of wealth inheritance is even more obvious

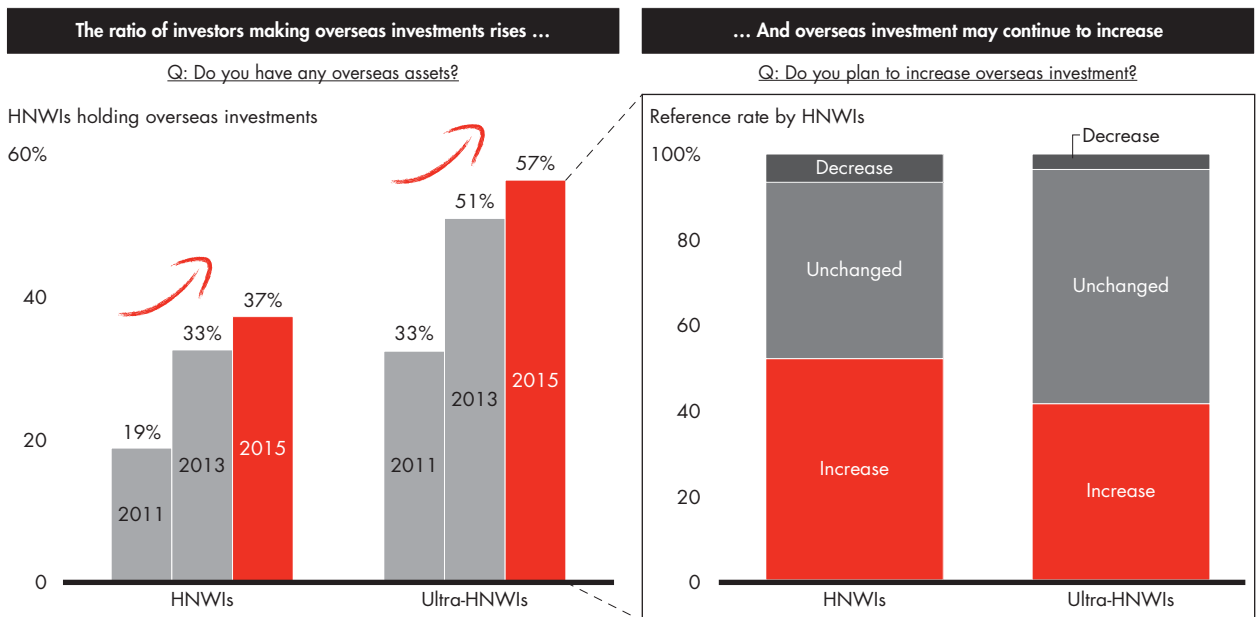
Note: RM refers to regional account manager
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end wealth management relationship managers from other financial institutions; Bain analysis

Figure 7: HNWI want to leave a legacy of both financial wealth and family values



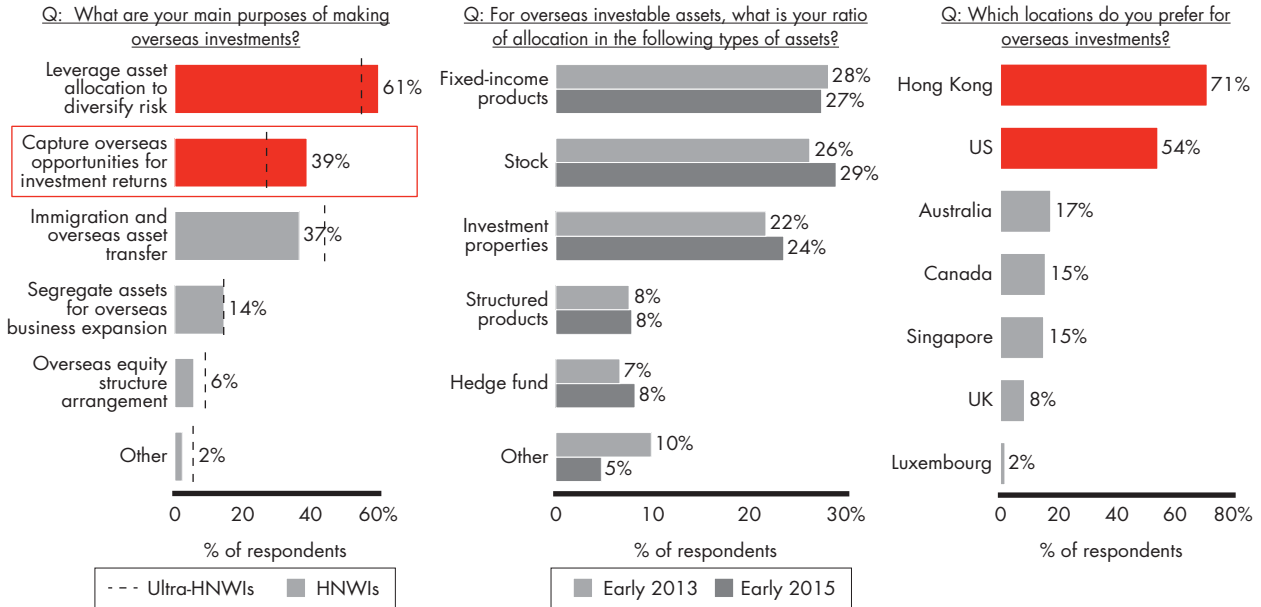
Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

Figure 8: An increasing number of HNWI have made overseas investments, and that momentum will continue



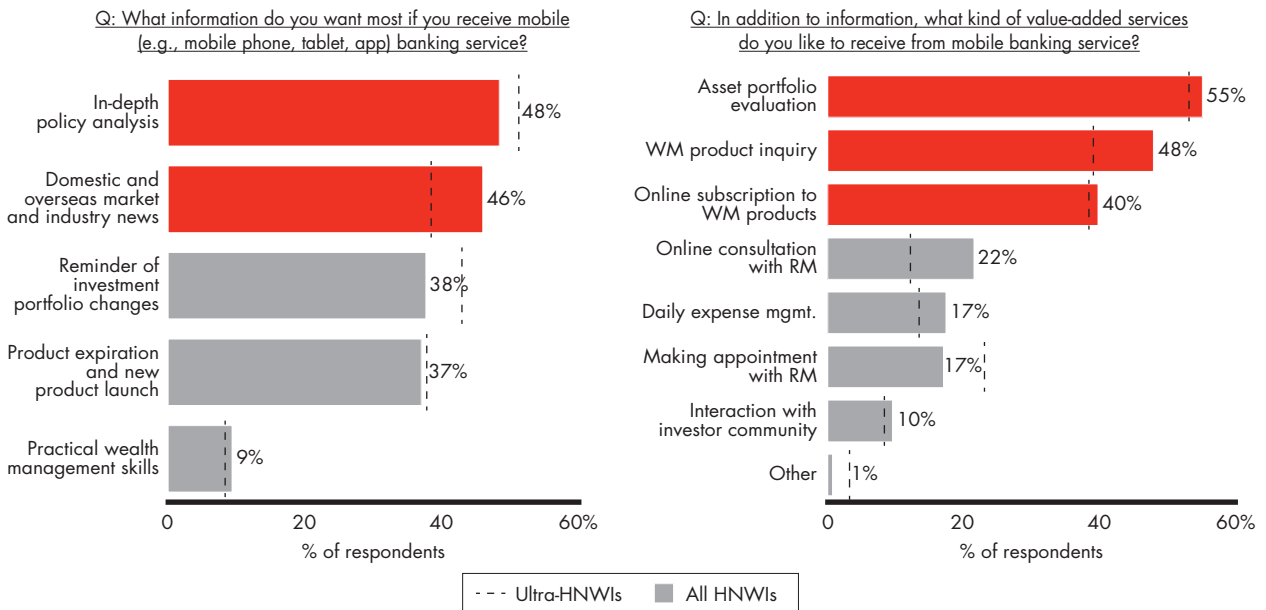
Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

Figure 9: In addition to diversifying assets, HNWI have started to actively seek returns on overseas investments



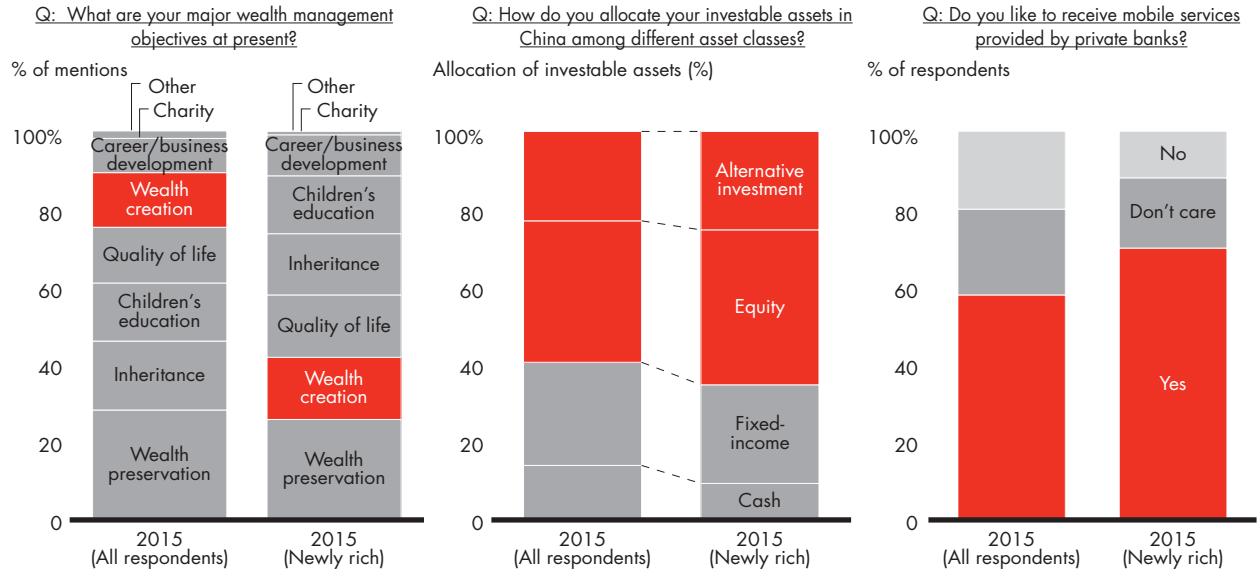
Note: Bar lengths may not have consistent spacing due to rounding.
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

Figure 10: HNWI are open to online channels like mobile private banking services



Note: RM refers to regional account manager
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

Figure 11: Compared with other HNWLs, the newly rich have a more aggressive and open investment style



Notes: Cash includes cash deposit and monetary fund; fixed-income includes bonds, bank wealth management products and trust products; equity includes equity funds and stocks; alternative investment includes guarantee-type insurance, other domestic investment and investment property
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

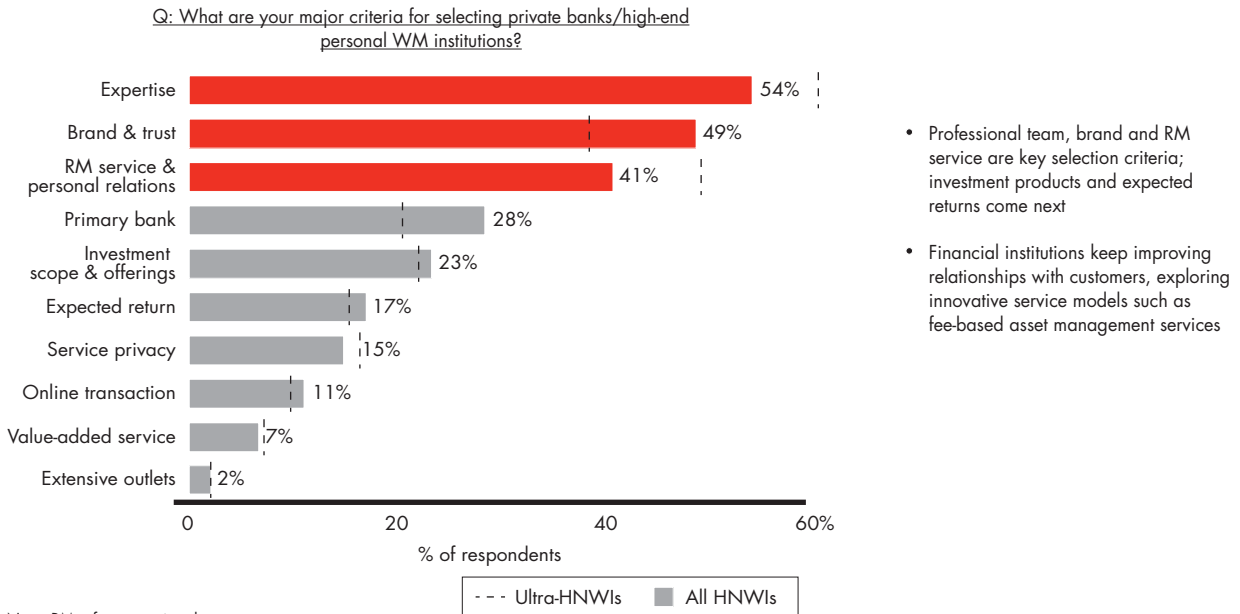


3.

Private banking: Competitive landscape

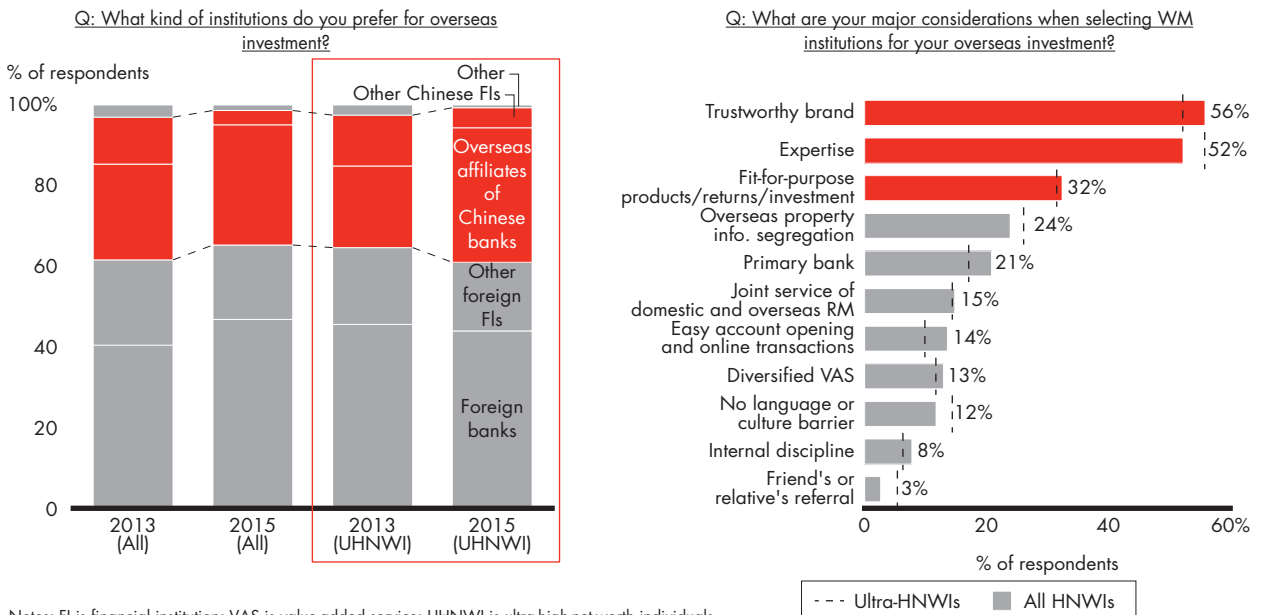
- Chinese private banks continue to be the most preferred wealth management option. They are actively investing to build cross-border capabilities.
- Banks and other wealth management institutions in China earn customers based on their brand, expertise and service. The scope of product offerings and expected returns are secondary criteria.
- Other wealth management providers, including fund management companies and third-party wealth management and trust companies, mainly compete on product offerings and distribution.
- Brand, expertise and product offerings are the most important criteria for Chinese HNWI when choosing their overseas wealth management institution; ultra-HNWIs value expertise the most.
- Convenience, Chinese language service capability and cultural connections are important, especially for HNWI who use overseas investments to achieve risk diversification and stable returns.

Figure 12: Domestic asset management market: Providers compete on brand, expertise and service



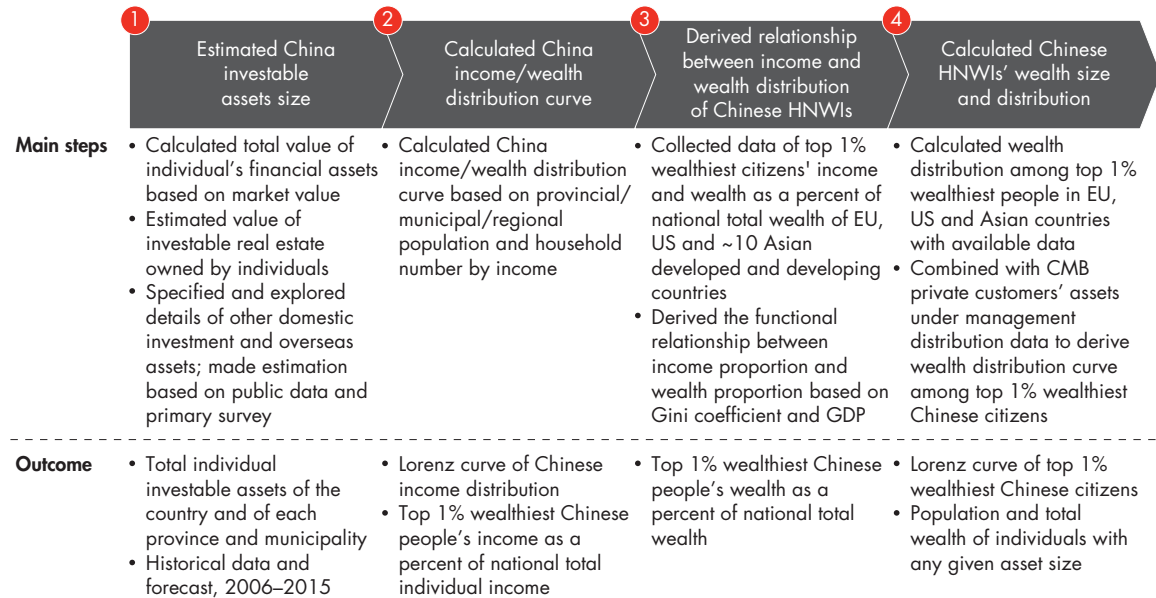
Note: RM refers to regional account manager
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

Figure 13: Overseas asset management market: Chinese banks are gaining share; brand, expertise and products are the most important criteria



Notes: FI is financial institution; VAS is value-added service; UHNWI is ultra-high-net-worth individuals
 Sources: CMB customer questionnaire survey; CMB/non-CMB customer in-depth interviews; CMB RM interviews; CMB partner RM interviews; interviews with high-end WM RM of other financial institutions; Bain analysis

China wealth market sizing model methodology



Source: Bain & Company

Contacts in Bain's Financial Services practice in Asia-Pacific:

Asia-Pacific: **Jennifer Zeng** in Beijing (jennifer.zeng@bain.com)
Alfred Shang in Beijing (alfred.shang@bain.com)
Sameer Chishty in Hong Kong (sameer.chishty@bain.com)

For a copy of the full *Evolution of China's Private Wealth Market* report, please contact the authors.

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